

A STUDY ON UTILIZATION PATTERN AND DIVERSION OF LOAN OF DISTRICT CO-OPERATIVE AGRICULTURE AND RURAL DEVELOPMENT BANK OF HOSHANGABAD DISTRICT OF MADHYA PRADESH

MEGHA SAHU¹, J. S. RAGHUWANSHI² & A.M. JAULKAR³

¹Research Scholar, Department of Agricultural Economics & F.M., College of
Agriculture, Rajmata Vijayaraje Scindia Krishi Vishwa Vidhyalaya, Gwalior, M.P., India

²Professor & Head Department of Agricultural Economics & F.M., College of Agriculture,
Rajmata Vijayaraje Scindia Krishi Vishwa Vidhyalaya, Gwalior, M.P., India

³Professor Department of Agricultural Economics & F.M., College of Agriculture, Rajmata
Vijayaraje Scindia Krishi Vishwa Vidhyalaya, Gwalior, M.P., India

ABSTRACT

In India the cooperative banking sector is one of the most important partners of banking structure, the cooperative banks have more reach to the rural area, through their huge network of branches in the credit structure. But the borrowers do not use entire loan amount for the purposes for which they borrowed funds. Hence, here is an attempt to assess the extent of utilization of loan and diversion of credit for different heads by borrowers who have got long term agricultural loans from the DCA&RDB. The Hoshangabad district and District Cooperative Agriculture and Rural Development Bank was selected for this investigation purposively. According to purpose wise the maximum amount of utilized loan was varying from 71.28 percent to 88.22 percent of the total amount sanctioned. According to branch wise maximum amount utilized was varying from 82.59 percent to 78.80 percent. Nearly 34.46 percent of the funds diverted by the sample borrowers had been used for meeting household expenses. About 9.43 percent of the diverted funds had been used for the payment of old debts including the co-operative loan. However, the current farm expenditure amounted for nearly 14.83 percent of the diverted funds. Nearly 9.88 percent of the diverted funds had been used for health purposes. About 10.51 percent of the diverted funds had been used for the social ceremony. 20.90 percent of the diverted funds had been used for other purposes.

KEYWORDS: Utilization of Loan, Diversion of Loan & DCA & RDB

Received: Feb 03, 2017; **Accepted:** Mar 21, 2017; **Published:** Mar 25, 2017; **Paper Id.:** IJASRAPR201752

INTRODUCTION

Agricultural production depends upon millions of farmers. It is the capacity of farmer's effort and the efficiency of their technique that will help in raising production. Agricultural growth depends on the growth of productivity, which in turn requires finance. In India the cooperative banking sector is one of the most important partners of banking structure, the cooperative banks have more reach to the rural area, through their huge network of branches in the credit structure. The cooperative banks have been moved towards rural areas for providing the capital required through short term and long term borrowings at a reasonable rate of interest. Credit may easily be compared to a sharp edged knife; proper utilization of it usually generates higher productivity and finally results in better prosperity. But earlier studies show that the borrowers do not use full loan amount for the purposes for which they borrowed funds. Once the credit is used for unproductive purposes, it is responsible for low production

and indebtedness of the farmer. The diversion of loan to unproductive purposes affects financial institutions and the repaying capacity of the farmers. Hence, here is an attempt to assess the extent of utilization of loan and diversion of loan for different heads by sample borrowers who have got long term agricultural loans from the DCA&RDB.

METHODOLOGY

The data required for the present study were both primary and secondary in nature. The primary data were collected from the sample respondent and secondary data were obtained from the published matter in the form of annual reports, bank records. The Hoshangabad district and District Cooperative Agriculture and Rural Development Bank was selected for this investigation purposively, as the researcher was knowing that the DCA&RDB is functioning in this region for the last two decades and this was enable researcher to have detailed and corrected information on various aspects needed to fulfil the objective of this study. To achieve the objectives of the study, simple random sampling was used for data collection from the ultimate unit i.e. borrowers (farmers). There are six branches of District Co-operative Agriculture and Rural Development Bank Hoshangabad i.e. Itarsi, Bankhedi, Piparia, Sohagpur, Babai, Banapura. All branches were selected for the present study. A list of the borrowers, who comes under the circle of 20 kilometres radius from each branch (Itarsi, Bankhedi, Piparia, Sohagpur, Babai, Banapura) of District Co-operative Agriculture and Rural Development Bank Hoshangabad, was prepared. After the preparation of list, 5 borrowers was selected randomly for each purposes (5x8) i.e. new well, electric & diesel pump set, tube well, submersible pump, sprinkler, pipe line, thresher and tractor, (these purposes are purposively selected) it means 40 borrowers from each branch was selected. Thus, the total (40x6) 240 respondents were selected for this study.

RESULTS AND DISCUSSION

The distribution pattern of loan, deduction, utilization and diversion of loan, of the District Cooperative Agriculture & Rural Development Bank has been described. The first step towards ensuring a favourable impact of the District Cooperative Agriculture & Rural Development Bank loan on agriculture is to ensure that the funds are used for the purposes for which they are sanctioned. For the present study the proper utilization of loan has been defined as the use of the funds exclusively for the purpose for which they were sanctioned. These of funds (in part or full) used for any other (desirable or undesirable) purpose has, therefore, been described as 'diversion'.

According to assess the extent of diversion i.e. the figures for intended and actual uses of the District Cooperative Agriculture & Rural Development Bank loan for the sample farmers, may be placed together.

Table1 presents the required details. It may be viewed from Table 1 that the extent of diversion is about 8.36 percent of the total funds sanctioned by the District Cooperative Agriculture & Rural Development Bank to the sample farmers in the selected branches. The position of such 'diversion' is different in the cases of different branches as may be seen from the Table. The diversion consists of two categories (a) the deductions made by the bank authorities before or at the time of disbursement of the sanctioned loan to the borrowers, and (b) the diversions made by the borrowers from the funds actually made available to them. It was observed that the maximum amount of utilized loan was 71.28 percent to 88.22 percent of the amount sanctioned. The minimum amount utilized for purchasing of thresher was 71.28 percent, and maximum for the purpose of electric and diesel pump sets it was 88.22 percent of the amount sanctioned. Thus an average amount utilized was 81.64 percent of the amount sanctioned.

The District Cooperative Agriculture & Rural Development Bank has a provision whereby, at the time of disbursement of the loan, the share money is deducted from each loan (i.e. 10 percent of the sanctioned amount). However, technically speaking this deduction constitutes diversion, because a part of the loan is used for a purpose never intended by the applicant. At best one may call it a desirable or authorized diversion.

In all the diversion of funds consisting of authorized and unauthorized deductions, constitute nearly 10 percent of the total funds sanctioned to the sample farmers for all the branches taken together. It was observed that the authorized deduction for digging of new wells, purchase of electric & diesel pump, tube wells, submersible pump, sprinkler, pipe line, thresher, and tractor purposes were 10 percent respectively.

Other Diversion

If the 'authorized deduction' are kept separate, the extent of diversion (category b), out of the disbursement funds is not very high when figures for all the branches are aggregated. For all the branches taken together, it is only 8.36 percent of the total loan sanctioned to the sample borrowers. While in the case of branch like Itarsi and Babai this diversion is 9.57 and 7.28 percent respectively of total loan disbursed the corresponding figures, for Banapura, and Piparia are 9.02 percent and 7.41 percent while in the case of Bankhedi it is about 5.50 percent, which is the lowest and Sohagpur it is about 11.33 percent which is the highest among all the branches. It may also be noted from the same table 4.4, that in Itarsi the extent of diversion is highest i.e. 18.44 in case of digging of new wells. Which however, in the case of Sohagpur and Banapura, the extent of diversion is higher (ranging between 6 percent and 8 percent of total funds) in the case of electric & diesel pump set and submersible pump sets. In Piparia the extent of diversion is highest (e.g. 32.17 percent of total funds) in the case of loan tube wells. In the case of Bankhedi, surprisingly enough, the extent of diversion is also higher (5 percent and 11.63 of the total funds) in the case of sprinkler and pipe line. Excepting for the purchasing of thresher and tractor, the extent of diversion (ranging from 11 to 30 percent) in the Babai and Sohagpur branches may appear to be quite alarming. However, the basic reason for diversion is the possibility of over financing or under financing of different times by the bank. Since the bank does not give any attention to the cost factor, the payment may exceed or may fall short of the actual requirement. As noted from the sample farmers in both the cases, it may result into diversion.

However, before we go into the causes of diversion, it may be pointed out that the aggregate picture of diversion in relation to total funds granted in a branch may not give a true picture of the situation.

Utilization of Diverted Funds

It was found that from the table 2 the 34.46 percent of the funds diverted was highest by the sample borrowers had been used for meeting household expenses, followed by current farm expenditure which was nearly 14.83 percent of the diverted funds. However, the health expenditure amounted for nearly 9.88 percent of the diverted funds. About 10.51 percent of the diverted funds used for social ceremony. Nearly 20.90 percent of the diverted funds had been used for miscellaneous purposes. About 9.43 percent of the diverted funds had been used for the payment of old debt was including the co-operative loan.

If we look into the circumstances or factors which make it possible to divert the District co-operative agricultural & rural development bank loan, it is not difficult to understand the possibility of diversion in the case of items like digging of new well and tube well etc. where the borrower himself undertakes the disposal of the funds. The provision of utilization certificates from local authorities is too an ineffective safeguards to prevent diversion. The borrowers as well as those who

issue such certificates look upon certificates as mere formality.

CONCLUSIONS

However, the diversion in the case of electric & diesel pump, submersible pump, sprinkler, thresher, tractors and accessories and pipeline, where payment is made directly to the equipment dealers, needs some explanation. In these cases, extra funds for machines rooms are generated along with for the equipment and they provide farmer with enough scope for diversion. But there is yet another possibility. It has been noted that according to the prevailing practice the dealers can manage to get a payment larger than the actual cost of the equipment through over invoicing. In some cases the margin between the market price of the equipment and its price when purchased through the District Co-Operative Agricultural & Rural Development Bank was different. The equipment dealers share a part of this surplus with the borrowers by the way of paying some amount to him in the form of selling cost either before or after the delivery of the equipment, which takes place much earlier than the loan is finally sanctioned from the head office of the bank.

The bank too has taken note of this situation and has approached the government to put the certain restrictions on the equipment dealers. In fact, the government has abolished the regulations which were in operation a few years back.

This is said to have been done in order to promote the new equipment manufacturing industries in the state. In any way, it is rather an irony of the situation that the District co-operative agricultural & rural development bank, in spite of being the biggest indirect purchaser of the equipments, has to rest content with the terms dictated by private equipment dealers.

REFERENCES

1. Anonymous (2005-06 to 2009-10). "Annual reports of District Co-Operative Agricultural and Rural Development Bank. Hoshangabad".
2. Athwale, M. C. (1968) "A study of loan advanced by the Land Development Bank and their utilization of Bilaspur and Ratlam, District M.P. Agro- Economics Research Center for M.P., Jabalpur
3. Bhalla Y.A. (1983) "Distribution of Agriculture Loan in Udaipur" Co-operator New Delhi Vol. 10 No. 4 April pp. 6 – 11.
4. Bisen, R. K. (1977) "An analysis of utilization of loan provided by Central Cooperative Land Development Bank, branch Balaghat, M.P." M. Sc. (Ag.) thesis, deptt. of Agricultural Economics And Farm Management, JNKVV, Jabalpur, M.P.
5. Boraiah G.B., (2013) "Diversion Of Cooperative Credit - A Case Study of chitradurga District In Karnataka State" IJRIM Volume 3, Issue 12 (December) (ISSN 2231-4334) International Journal of Research in IT & Management
6. Jodha, N. S. and Bhat, M. L. (1969) "Soon aspect of long term Agriculture Finance". Agro-Economics Research Centre for Gujarat and Rajasthan, Vallabh Vidya Nagar.
7. Rajashekhar Karjagi Khan, H. S. S. Vijaykumar, H. S. (2010) Extent of loan issued by the commercial banks under AC and ABCs scheme in South India. Abstracts Mysore Journal of Agricultural Sciences; 2010. 44(4):866-871. 2 ref.[Journal article]
8. Rao K.S. A (2013) Comparative Analysis of Loan and Advances In Selected Urban Co-Operative Banks National Monthly Refereed Journal Of Research In Commerce & Management Volume NO.2, ISSUE NO.10 ISSN 2277-1166 11
9. Seshaiab, K. Murthy and Sivashankar P. R (1984) "Distribution of Agricultural Credit to the Weakest of the Weak" Indian Journal of Banking New Delhi Vol. XV No. 11 Sept. 1984 pp. 15-19.

10. Sidhu, R.S. and Gill, S.S. (2006) "Agricultural credit and indebtedness in India: Some issues, "Indian Journal of Agricultural Economics, 61: 11-35.
11. Okibo W., Bichanga Lilian Aseyo (2013) "Causes of Loan Default within Micro Finance Institutions in Kenya" *Interdisciplinary Journal Of Contemporary Research In Business* Copy Right © 2013 Institute of Interdisciplinary Business Research 316 APRIL VOL 4, NO 12

APPENDICES

Table 1: Deductions, Diversion and Utilization of Loan by Sample Borrowers

Purpose	Itarsi				Babai			
	1				2			
	Amount Sanctioned	Total Deduction	Amount Diverted	Amount Utilized	Amount Sanctioned	Total Deduction	Amount Diverted	Amount Utilized
New well	141000 (100)	14,100 (10)	26000 (18.44)	100900 (71.56)	127000 (100)	12700 (10)	18000 (14.17)	96300 (85.83)
Electric & diesel pump	65500 (100)	6550 (10)	-	58950 (90)	61000 (100)	6100 (10)	-	54900 (90)
Tube well	400000 (100)	40,000 (10)	61000 (15.25)	299000 (74.75)	351000 (100)	35100 (10)	54000 (15.38)	261900 (74.62)
Submersible pump	92000 (100)	9200 (10)	2500 (2.72)	80300 (87.28)	88000 (100)	8800 (10)	-	79200 (90)
Sprinkler	164000 (100)	16,400 (10)	7600 (4.63)	140000 (85.37)	160000 (100)	16000 (10)	-	144000 (90)
Pipe line	306000 (100)	30,600 (10)	-	275400 (90)	343000 (100)	34300 (10)	-	308700 (90)
Thresher	280000 (100)	28,000 (10)	47000 (16.79)	205000 (73.21)	320000 (100)	32000 (10)	101500 (31.72)	186500 (58.28)
Tractor	2168000 (100)	2,16,800 (10)	202000 (9.32)	1749200 (80.68)	2385000 (100)	238500 (10)	97000 (4.07)	1929500 (85.93)
Total	36,1500 (100)	361650 (10)	346100 (9.57)	2908750 (80.43)	3715000 (100)	383500 (10.32)	270500 (7.28)	3061000 (81.88)

Table 2

Purposes	Banapura				Bankhedi			
	3				4			
	Amount Sanctioned	Total Deduction	Amount Diverted	Amount Utilized	Amount Sanctioned	Total Deduction	Amount Diverted	Amount Utilized
New well	140000 (100)	14000 (10)	14000 (10)	112000 (80)	136000 (100)	13600 (10)	10500 (7.72)	111900 (82.23)
Electric & diesel pump	61500 (100)	6150 (10)	-	55350 (90)	71000 (100)	7100 (10)	-	63900 (90)
Tube well	347000 (100)	34700 (10)	22000 (6.34)	290300 (83.66)	368000 (100)	36800 (10)	27000 (7.34)	304200 (82.66)
Submersible pump	85000 (100)	8500 (10)	6500 (7.65)	70000 (82.35)	84500 (100)	8450 (10)	5000 (5.92)	71050 (84.08)
Sprinkler	158000 (100)	15800 (10)	-	142200 (90)	178000 (100)	17800 (10)	8900 (5)	151300 (85)
Pipe line	320000 (100)	32000 (10)	26000 (8.13)	262000 (81.88)	344000 (100)	34400 (10)	40000 (11.63)	269600 (78.37)
Thresher	254000 (100)	25400 (10)	79000 (31.10)	149600 (58.90)	284000 (100)	28400 (10)	10000 (3.52)	245600 (86.48)
Tractor	2138000 (100)	213800 (10)	181500 (8.49)	1887700 (81.51)	2097000 (100)	209700 (10)	94000 (4.48)	1781300 (85.52)
Total	3648500 (100)	350350 (9.6)	329000 (9.02)	2969150 (81.38)	3550500 (100)	356250 (10.03)	195400 (5.50)	2998850 (84.47)

Table 3

Purposes	Sohagpur				Piparia				Total			
	5				6				7			
	Amount Sanctioned	Total Deduction	Amount Diverted	Amount Utilized	Amount Sanctioned	Total Deduction	Amount Diverted	Amount Utilize	Amount Sanctioned	Total Deduction	Amount Diverted	Amount Utilized
New well	128000 (100)	12800 (10)	16000 (12.5)	99200 (77.5)	131000 (100)	13100 (10)	15000 (11.45)	102900 (78.55)	803000 (100)	80300 (10)	99500 (12.39)	623200 (77.61)
E & D pump	73000 (100)	7300 (10)	4500 (6.16)	61200 (83.84)	62000 (100)	6200 (10)	2500 (4.03)	53300 (85.96)	394000 (100)	39400 (10)	7000 (1.78)	347600 (88.22)
Tube well	371000 (100)	37100 (10)	90500 (24.39)	243400 (65.60)	345000 (100)	34500 (10)	111000 (32.17)	199500 (57.83)	2182000 (100)	218200 (10)	365500 (16.75)	1598300 (73.25)
Submersible pump	115500 (100)	11550 (10)	-	103950 (90)	93000 (100)	9300 (10)	-	83700 (90)	558000 (100)	55800 (10)	14000 (2.51)	488200 (87.49)
Sprinkler	163000 (100)	16300 (10)	-	146700 (90)	173000 (100)	17300 (10)	3000 (1.73)	152700 (88.27)	996000 (100)	99600 (10)	19500 (1.96)	876900 (88.04)
Pipe line	328000 (100)	32800 (10)	19000 (5.7)	276200 (84.21)	325000 (100)	32500 (10)	-	292500 (90)	1966000 (100)	196600 (10)	85000 (4.32)	1684400 (85.68)
Thresher	280000 (100)	28000 (10)	47000 (16.79)	205000 (73.21)	283000 (100)	28300 (10)	34000 (12.01)	220700 (77.99)	1701000 (100)	170100 (10)	318500 (18.72)	1212400 (71.28)
Tractor	2060000 (100)	206000 (10)	227000 (11.02)	1673000 (78.98)	2063000 (100)	206300 (10)	92000 (4.46)	1764700 (85.54)	12970000 (100)	1297000 (10)	893500 (6.89)	10785400 (83.11)
Total	3564500 (100)	351850 (9.87)	404000 (11.33)	2808650 (78.80)	3475000 (100)	347500 (10)	257500 (7.41)	2870000 (82.59)	21570000 (100)	2151100 (9.97)	1802500 (8.36)	17616400 (81.68)

Table 4: Diversion of Loan in Different Heads

Particulars	Funds (In Rs.)	Percentage
Household expenditure	621100	34.46
Payment of old debt	169900	9.43
Current farm expenditure	267300	14.83
Health	178000	9.88
Social ceremonies	189500	10.51
Others	376700	20.90
Total	182500	100.00

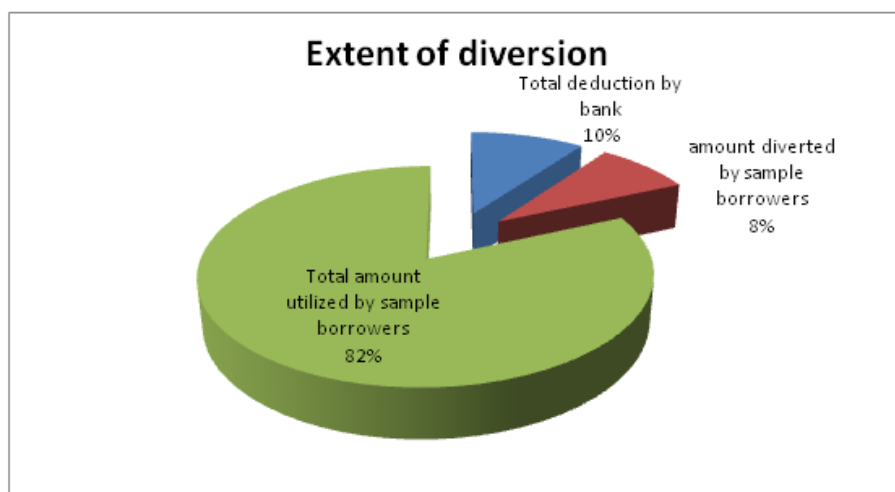


Figure 1: Deductions, Diversion and Utilization of District Cooperative Agriculture and Rural Development Bank Loans by Sample Borrowers

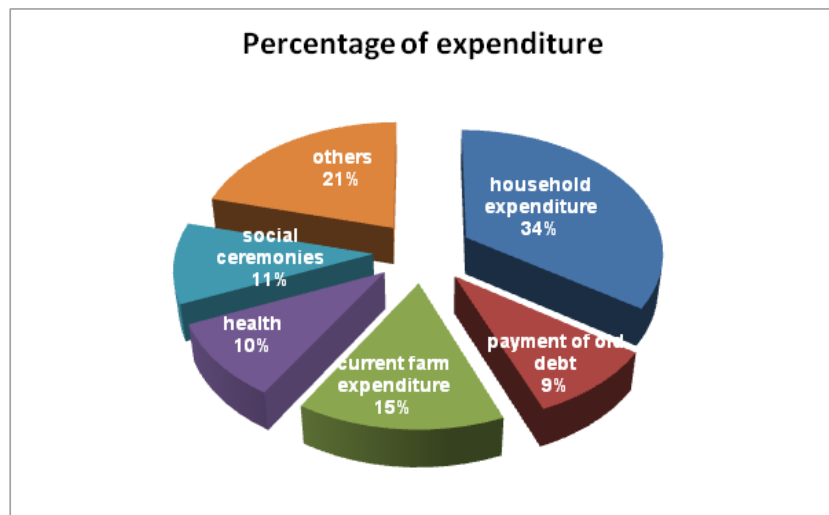


Figure 2: Diversion of Funds for Different Heads

